

Message Text

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TAGS: EWWT, UR, US

SUBJECT: US/SOVIET OIL NEGOTIATIONS--THIRD AND FOURTH WEEKS

REF: (A) STATE 24641 (B) STATE 30056

1. SUMMARY. SINCE THE US DECIDED TO SEEK AN OIL AGREEMENT WITHOUT A SPECIFIC PRICE FORMULA (REF B), WE HAVE BEEN ABLE TO AGREE WITH THE SOVIETS ON ALL BUT ONE OF THE ARTICLES OF AN AGREEMENT. THE SOVIETS CONTINUE TO OPPOSE INCLUSION OF ARTICLE 3 (WHICH STATES THAT BOTH GOVERNMENTS EXPECT THE TERMS OF COMMERCIAL TRANSACTIONS WILL ASSURE THAT THE CONTEMPLATED VOLUME OF TRADE WILL BE ACHIEVED). IN THE SHIPPING TALKS WHICH BEGAN ON FEBRUARY 17, THERE ARE STILL SUBSTANTIAL DIFFERENCES BETWEEN THE TWO SIDES. THE OIL AGREEMENT WILL NOT BE SIGNED UNTIL WE WORK OUT SATISFACTORY TERMS ON BOTH SHIPPING AND ARTICLE 3. END SUMMARY.

2. DURING THE THIRD AND FOURTH WEEKS OF THE OIL
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NEGOTIATIONS, WE AGREED ON ALL BUT ONE OF THE ARTICLES OF

A BASIC AGREEMENT. ARTICLE 3, WHICH IS STILL IN DISPUTE,

STATES THAT THE PARTIES EXPECT THAT THE TERMS AND CONDITIONS OF COMMERCIAL TRANSACTIONS "WILL ASSURE THE INTERESTS OF BOTH PARTIES IN ACHIEVING THE VOLUME OF TRADE CONTEMPLATED BY THIS AGREEMENT." OSIPOV ARGUES THAT IT IS UNNECESSARY TO INCLUDE A STATEMENT THAT BOTH SIDES EXPECT THE AGREEMENT TO BE IMPLEMENTED, AND, AFTER CHECKING TWICE FOR INSTRUCTIONS FROM PATOLICHEV, HE IS STICKING TO THE POSITION THAT THIS ARTICLE SHOULD BE ELIMINATED. WE POINT OUT THAT WE MADE A MAJOR CONCESSION IN DROPPING OUR REQUEST FOR A SPECIFIC PRICE FORMULA, AND THAT WE WILL NOT AGREE TO DROP ARTICLE 3. WE STRESS THAT ARTICLE 3 IS A NECESSARY REFLECTION OF POINT 6 OF THE AGREED LETTER OF INTENT OF OCTOBER 20 (WHICH STATED THAT PRICES WILL BE MUTUALLY AGREED AT A LEVEL WHICH WILL ASSURE THE INTERESTS OF BOTH GOVERNMENTS).

3. THE FOLLOWING IS A SUMMARY OF THE OTHER ARTICLES, ON WHICH AGREEMENT HAS BEEN REACHED:

-- ARTICLE 1. SOVIET COMMITMENT TO OFFER FOR SALE TO THE USG 10 MILLION TONS OF CRUDE OIL AND PRODUCTS EACH YEAR, THROUGH 1980. AT LEAST 70 PER CENT OF THIS WILL BE CRUDE. THE TOTAL AMOUNT WILL BE DELIVERED TO THE US MARKET, UNLESS BOTH GOVERNMENTS AGREE THAT SOME CAN GO TO EUROPE OR TO SOME OTHER MARKETING AREA.

-- ARTICLE 2. IF THE USG DECIDES NOT TO EXERCISE ITS OPTION TO BUY, AND SO INFORMS THE SOVIET GOVERNMENT IN WRITING, COMPANIES SERVING THE US MARKET WILL BE ELIGIBLE TO CARRY OUT TRANSACTIONS UNDER THE AGREEMENT. DEADLINES FOR OFFERS, NOTIFICATION OF AMOUNTS DESIRED TO BE PURCHASED AND CONCLUSION OF CONTRACTS ARE SPECIFIED.

-- ARTICLE 4. SALES ARE TO BE ON A C AND F BASIS, UNLESS THE PARTIES TO SPECIFIC CONTRACTS AGREE OTHERWISE. PRICES WILL BE FIXED IN CONTRACTS, "TAKING ACCOUNT OF CONFIDENTIAL

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CONDITIONS CUSTOMARY IN INTERNATIONAL TRADE IN CRUDE OIL AND PETROLEUM PRODUCTS, AT LEVELS MUTUALLY ACCEPTABLE TO THE SELLER AND PURCHASER."

-- ARTICLE 5. SHIPMENTS ARE TO TAKE PLACE IN ACCORDANCE WITH US-SOVIET MARITIME AGREEMENTS, INCLUDING THE AGREEMENT CURRENTLY BEING NEGOTIATED BETWEEN BLACKWELL

AND AVERIN, WHICH WILL BE DATED THE SAME DATE AS THE OIL AGREEMENT. THE PARTIES EXPECT THAT A PORTION OF THE CRUDE AND PRODUCTS WILL BE SHIPPED IN TANKERS USED TO CARRY GRAIN TO THE USSR.

-- ARTICLE 6. THE PARTIES WILL CONSULT AT LEAST ANNUALLY ON THE IMPLEMENTATION OF THE AGREEMENT. MORE FREQUENT CONSULTATIONS CAN BE HELD ON REQUEST.

-- ARTICLE 7. THE AGREEMENT WILL NOT LIMIT THE VOLUME OF SALES TO THE US, OR AFFECT RELATIONS BETWEEN THE SOVIETS AND US COMPANIES WITH RESPECT TO MARKETS OUTSIDE THE US, OR WITH RESPECT TO SALES OUTSIDE THE AGREEMENT.

-- ARTICLE 8. ENTRY INTO FORCE, TERMINATION DATE.

4. THE TWO SIDES HAVE ALSO AGREED ON THE TEXTS OF LETTERS, TO BE EXCHANGED WHEN THE AGREEMENT IS SIGNED, WHICH ESTABLISH HOW THE AGREEMENT IS TO BE IMPLEMENTED IN 1976. THESE STATE THAT THE USG HAS DECIDED NOT TO PURCHASE ANY CRUDE OR PRODUCTS UNDER THE TERMS OF THE AGREEMENT THIS YEAR, AND THAT THE ENTIRE AMOUNT IS TO BE DELIVERED TO COMPANIES SERVING THE UNITED STATES MARKET.

5. IN THE MARITIME NEGOTIATIONS, THE US POSITION IS THAT THE RATE TO BE APPLIED TO THE OIL SHIPMENTS SHOULD BE BASED ON LONG-TERM TIME CHARTER RATES, INSTEAD OF THE MORE VOLATILE SPOT MARKET RATES. THE SOVIETS MAINTAIN THAT THE APPLICABLE RATE SHOULD BE THE CHEAPEST ONE AVAILABLE AT ANY GIVEN MOMENT, I.E., THE SPOT RATE. THEY FURTHER ARGUE THAT THE RATE SHOULD

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BE BASED ON THE ONE USED FOR 45,000 TO 80,000 TON VESSELS. THIS RATE WOULD BE LOWER THAN THE RATE NORMALLY CHARGED BY MOST OF THE US VESSELS USED IN US-SOVIET TRADE, WHICH ARE SMALLER THAN 45,000 TONS. THE SOVIETS ARGUE THAT THE LOWER RATE IS JUSTIFIED, AS THE OIL WOULD IN MANY CASES BE BACKHAUL CARGO. WE HAVE NOTED THAT BACKHAUL DISCOUNTS ARE NOT STANDARD PRACTICE IN INTERNATIONAL SHIPPING, AND THAT THEY ARE ESPECIALLY INAPPROPRIATE IN THIS CASE BECAUSE OF CLEANING COSTS AND OTHER CHARGES WHICH US GRAIN SHIPS WOULD HAVE TO ASSUME WHEN THEY CARRY OIL. IN ANY CASE, THE SOVIET PROPOSAL FIXES RATES AT A POINT TOO LOW TO BE ECONOMICALLY FEASIBLE FOR US SHIPOWNERS. KISSINGER

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